

State of
Utah
COMPREHENSIVE
ANNUAL FINANCIAL
REPORT



For the Fiscal Year Ended June 30, 2003

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2003

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State of Utah
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For the Fiscal Year Ended June 30, 2003

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INTRODUCTION

The following is a discussion and analysis of the State of Utah's financial performance and position, providing an overview of the State's activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and with the State's financial statements that follow this section.

HIGHLIGHTS

Government-wide

- The State's net assets increased \$262.6 million or 2.5 percent over the prior year. Net assets of governmental activities increased \$323.7 million or 3.6 percent due to a stable economy and active resource management. Net assets of business-type activities decreased by \$61.1 million or 3.9 percent, primarily due to higher unemployment resulting in increased unemployment claims.

Fund Level

- Combined tax revenues were 1.6 percent higher in the General Fund and 2.3 percent higher in the Uniform School Fund than the prior year as Utah's economy showed some gradual signs of recovery. The State's economic slowdown in the past two years is similar to that of the national economy.
- The Legislature faced funding critical needs for certain programs with revenue estimates showing little growth. The Legislature used a variety of methods to balance the General Fund budget including reducing agency budgets, using Tobacco Endowment Fund money, and bonding to replace cash originally appropriated for highway and building projects.

Long-term Debt

- The State's long-term bonded debt increased a net \$285.9 million, or 9.2 percent. The increased debt was issued to fund highway and capital facility construction and student loan programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes the State's Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Statements – Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities beginning on page 27 together comprise the *government-wide financial statements*. These statements provide a broad overview with a long-term focus of the State's finances as a whole and are prepared using the *full-accrual* basis of accounting, similar to private-sector companies. This means all revenues and expenses are recognized regardless of when cash is received or spent, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. Over time, increases and decreases in net assets measure whether the State's overall financial condition is getting better or worse. In evaluating the State's overall condition, however, additional non-financial factors should be considered such as the State's economic outlook, changes in its demographics, and the condition of its capital assets and infrastructure. The government-wide statements report three activities:

Governmental Activities – Most of the State's basic services fall under this activity including education, transportation, public safety, courts, corrections, health, and human services. Taxes and federal grants are the major funding sources for these programs.

Business-type Activities – The State operates certain activities much like private-sector companies by charging fees to customers to cover all or most of the costs of providing the goods and services. Student loans, unemployment compensation, water project loan programs, and liquor sales are examples of business-type activities.

Component Units – Several entities are legally separate from the State, yet the State remains financially accountable for them. Colleges and Universities, Utah Housing Corporation, and Utah State Fair Corporation are examples of component units.

Fund Financial Statements – Reporting the State's Most Significant Funds

The fund financial statements beginning on page 32 provide detailed information about individual major funds, not the State as a whole. A fund is a group of related accounts that the State uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the State's funds are divided into three types, each of which uses a different accounting approach.

Governmental Funds – Most of the State's basic services are accounted for in governmental funds and are essentially the same functions reported as *governmental activities* in the government-wide statements. Governmental funds use the *modified accrual* basis of accounting, which measures the flow of current financial resources that can be converted to cash and the balances left at year-end that are available for future spending. This *short-term* view of the State's financial position helps determine whether the State has sufficient resources to cover expenditures for its basic services in the near future.

Proprietary Funds – Proprietary funds include enterprise funds and internal service funds and account for state activities that are operated much like private-sector businesses. Like the government-wide statements, proprietary fund statements are presented using the *full-accrual* basis of accounting. Activities whose customers are mostly outside of state government (e.g., water loan funds to local governments) are accounted for in *enterprise funds* and are the same functions reported as *business-type activities* in the government-wide statements. Activities whose customers are mostly other state agencies (e.g., motor pool) are accounted for in *internal service funds*. The internal service fund activities are consolidated with the governmental activities in the government-wide statements because those services predominantly benefit governmental rather than business-type activities.

Fiduciary Funds – Fiduciary funds account for assets that, because of trust relationships, can only be used for trust beneficiaries. The State is responsible for ensuring these assets are used for their intended purposes. Fiduciary funds use *full-accrual* accounting but are *not* included in the government-wide statements because their assets are not available to finance the State's own programs.

Reconciliation Between Government-wide and Fund Statements

The financial statements include schedules on pages 34 and 38 that reconcile the amounts reported for *governmental activities* on the government-wide statements (full-accrual accounting, long-term focus) with amounts reported on the *governmental* fund statements (modified accrual accounting, short-term focus). Following are some of the major differences between the two statements:

- Capital assets and long-term debt are included on the government-wide statements but are not reported on the governmental fund statements.
- Capital outlay spending results in capital assets on the government-wide statements but are expenditures on the governmental fund statements.
- Bond proceeds result in liabilities on the government-wide statements but are other financing sources on the governmental fund statements.
- Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements but are deferred revenue on the governmental fund statements.

Notes to the Financial Statements

The notes beginning on page 56 provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

Required Supplementary Information (RSI)

Following the Basic Financial Statements are budgetary comparison schedules for major funds with legally adopted budgets and condition assessment data related to infrastructure. RSI further supports the information in the basic financial statements.

Supplementary Information

Supplementary Information includes combining statements for the State's nonmajor governmental, nonmajor proprietary, and fiduciary funds and nonmajor discretely presented component units. This section also includes schedules which compare budgeted expenditures to actual results at the legal level of control, which is generally the line item level of the *Appropriation Acts*.

Adjustments to Beginning Net Assets

As described in Note 2 of the financial statements on page 63, beginning net assets of governmental activities were reduced by \$60.3 million to reclassify the Public Employees Health Program to a component unit, and increased by \$117.8 million for capital asset adjustments. To enhance comparability, all amounts presented for governmental activities for fiscal year 2002 in this discussion and analysis were revised, where applicable, to reflect these changes as if the changes had been made in the prior year.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. The State's total net assets increased \$262.6 million or 2.5 percent in fiscal year 2003. In comparison, net assets in the prior year decreased \$93.5 million or 0.9 percent. This moderate increase in net assets resulted from a stable, slowly improving economy and the active management of state resources. Approximately \$125 million of the increase was in net capital assets as the State's investment in highways and buildings exceeded depreciation and net additional debt to finance projects. The increase in restricted net assets of governmental activities resulted primarily from an increase in unspent carry forward funds of \$61.7 million for education and \$85.5 million for transportation, and earnings of \$44.6 million in the permanent Trust Lands Fund. Restricted net assets decreased in business-type activities due to higher unemployment claims. The increase in unrestricted net assets was mainly in business-type activities, and those net assets generally can only be used to finance the business-type activities' ongoing operations.

State of Utah
Net Assets as of June 30
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current and Other Assets	\$ 2,832,859	\$ 2,644,789	\$ 2,880,978	\$ 2,870,922	\$ 5,713,837	\$ 5,515,711
Capital Assets	9,514,418	9,137,367	51,220	42,073	9,565,638	9,179,440
Total Assets	12,347,277	11,782,156	2,932,198	2,912,995	15,279,475	14,695,151
Current and Other Liabilities	643,232	602,642	38,654	55,952	681,886	658,594
Long-term Liabilities	2,456,410	2,255,533	1,389,095	1,291,513	3,845,505	3,547,046
Total Liabilities	3,099,642	2,858,175	1,427,749	1,347,465	4,527,391	4,205,640
Net Assets:						
Invested in Capital Assets, Net of Related Debt	7,951,838	7,827,247	22,104	21,336	7,973,942	7,848,583
Restricted	973,636	776,121	814,147	916,526	1,787,783	1,692,647
Unrestricted	322,161	320,613	668,198	627,668	990,359	948,281
Total Net Assets	\$ 9,247,635	\$ 8,923,981	\$ 1,504,449	\$ 1,565,530	\$ 10,752,084	\$ 10,489,511
Percent change from prior year	3.6 %		(3.9)%		2.5 %	

The largest component of the State's net assets, 74.2 percent, reflects investments in capital assets (land, buildings, equipment, roads, and other infrastructure) less the outstanding debt issued to finance those assets. As capital assets, these resources are not available for future spending, nor can they be readily liquidated to pay off their related liabilities. Resources needed to repay capital-related debt must be provided from other sources.

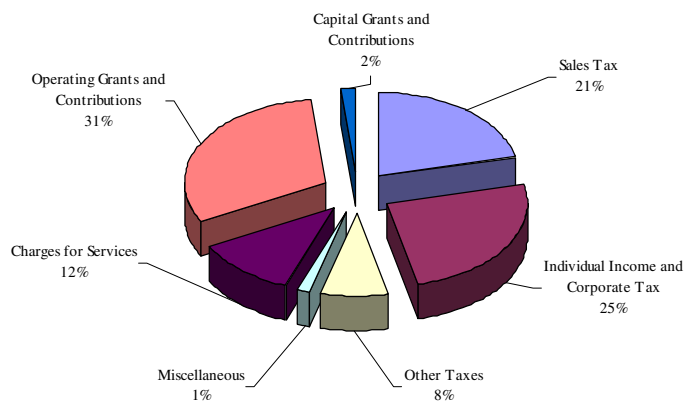
Restricted net assets comprise 16.6 percent of total net assets and are subject to constitutional, legal, or external constraints on how they can be used. Net assets that are restricted by the *Constitution of Utah* include income and corporate taxes that can only be used for public and higher education costs and motor fuel taxes that can only be used for transportation expenses.

The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations, though certain laws and internally imposed designations of resources further limit the purposes for which many of those net assets may be used.

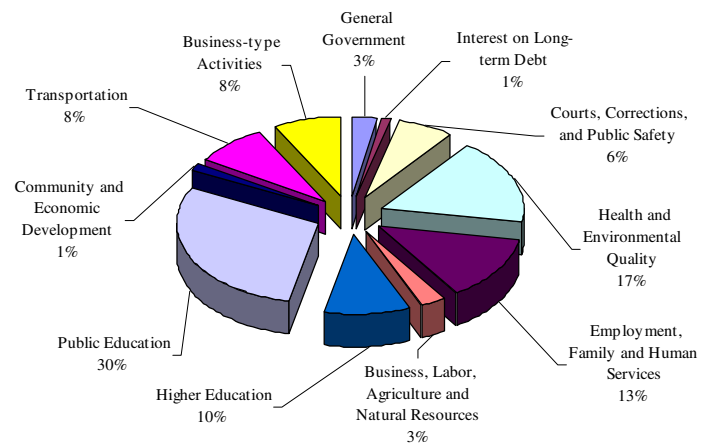
Changes in Net Assets. This year the State received 54.1 percent of its revenues from state taxes and 32.7 percent of its revenues from grants and contributions, mostly from federal sources. In the prior year, state taxes accounted for 54.8 percent, and grants and contributions were 31.3 percent of total revenues. Charges for goods and services such as licenses, permits, liquor sales, state parks, and court fees, combined with other miscellaneous collections, comprised 13.2 percent of total revenues in fiscal year 2003, compared with 13.9 percent in fiscal year 2002.

The charts on the following page summarize the State's total revenues, expenses, and changes in net assets for fiscal year 2003.

**State of Utah
Total Revenues - FY 2003**



**State of Utah
Total Expenses - FY 2003**



**State of Utah
Changes in Net Assets
for the Fiscal Year Ended June 30
(Expressed in Thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2003	2002	2003	2002	2003	2002	2002 to 2003
Revenues							
General Revenues:							
Taxes	\$ 3,784,924	\$ 3,598,731	\$ 2,180	\$ 16,343	\$ 3,787,104	\$ 3,615,074	4.8 %
Other General Revenues	99,620	72,226	3,212	5,995	102,832	78,221	31.5
Program Revenues:							
Charges for Services	472,610	507,698	353,138	329,282	825,748	836,980	(1.3)
Operating Grants and Contributions	2,034,177	1,794,902	130,235	163,584	2,164,412	1,958,486	10.5
Capital Grants and Contributions	123,883	109,751	—	—	123,883	109,751	12.9
Total Revenues	6,515,214	6,083,308	488,765	515,204	7,003,979	6,598,512	6.1
Expenses							
General Government	193,738	218,758	—	—	193,738	218,758	(11.4)
Human Services and Youth Corrections	538,492	539,028	—	—	538,492	539,028	(0.1)
Corrections, Adult	184,805	191,642	—	—	184,805	191,642	(3.6)
Public Safety	127,861	154,257	—	—	127,861	154,257	(17.1)
Courts	106,045	104,979	—	—	106,045	104,979	1.0
Health and Environmental Quality	1,177,121	1,062,393	—	—	1,177,121	1,062,393	10.8
Higher Education	647,572	704,595	—	—	647,572	704,595	(8.1)
Employment and Family Services	352,082	324,113	—	—	352,082	324,113	8.6
Natural Resources	119,528	114,083	—	—	119,528	114,083	4.8
Community and Economic Development	90,794	91,083	—	—	90,794	91,083	(0.3)
Business, Labor, and Agriculture	66,965	66,215	—	—	66,965	66,215	1.1
Public Education	1,981,119	1,999,112	—	—	1,981,119	1,999,112	(0.9)
Transportation	555,840	541,547	—	—	555,840	541,547	2.6
Interest on Long-term Debt	73,835	68,964	—	—	73,835	68,964	7.1
Student Assistance Programs	—	—	86,995	79,666	86,995	79,666	9.2
Unemployment Compensation	—	—	307,834	272,924	307,834	272,924	12.8
Water Loan Programs	—	—	7,074	6,181	7,074	6,181	14.4
Other Business-type Activities	—	—	123,706	122,694	123,706	122,694	0.8
Total Expenses	6,215,797	6,180,769	525,609	481,465	6,741,406	6,662,234	1.2
Excess (Deficiency) Before Special Item and Transfers	299,417	(97,461)	(36,844)	33,739	262,573	(63,722)	
Special Item – distribution to local government Transfers	—	(29,772)	—	—	—	(29,772)	
	24,237	26,358	(24,237)	(26,358)	—	—	
Change in Net Assets	323,654	(100,875)	(61,081)	7,381	262,573	(93,494)	
Net Assets – Beginning as Adjusted	8,923,981	9,024,856	1,565,530	1,558,149	10,489,511	10,583,005	
Net Assets – Ending	\$ 9,247,635	\$ 8,923,981	\$ 1,504,449	\$ 1,565,530	\$ 10,752,084	\$ 10,489,511	2.5 %

Governmental Activities

The State's total governmental revenues from all sources increased \$431.9 million or 7.1 percent. Tax revenues increased \$186.2 million, or 5.2 percent. This percentage increase at the government-wide level is higher than the increase in taxes at the fund level. While this increase may reflect a slight improvement in economic conditions, due to differences in measurement focus, timing of collections, and lack of historical accrued tax information, the increase at the government-wide level should not be used to predict future increases at the fund statement or budget level. With the exception of higher education expenses, other significant changes in governmental activities' revenues and expenses mirror the changes in the General Fund at the fund level. For further discussion of these changes, see the section titled "General Fund" on page 19. While part of the decrease in higher education expenses was due to cuts in general state support, a significant part of the decrease was due to a lower dollar amount of building projects completed for colleges and universities than in the prior year.

The table below shows to what extent the State's governmental activities relied on taxes and other general revenues to cover all of their costs. For fiscal year 2003, state taxes and other general revenues covered 57.7 percent of expenses. The remaining \$2.6 billion, or 42.3 percent of the total expenses were generated through charges for services and grants.

State of Utah
Net Cost of Governmental Activities
for the Fiscal Year Ended June 30
(Expressed in Thousands)

	Program Expenses 2003	Less Program Revenues 2003	Net Program Costs		Program Revenues as a Percentage of Program Expenses	
			2003	2002	2003	2002
General Government	\$ 193,738	\$ (158,957)	\$ 34,781	\$ 78,657	82.0 %	64.0 %
Human Services and Youth Corrections	538,492	(272,410)	266,082	280,837	50.6	47.9
Corrections, Adult	184,805	(7,004)	177,801	182,387	3.8	4.8
Public Safety	127,861	(66,738)	61,123	64,616	52.2	58.1
Courts	106,045	(29,695)	76,350	68,978	28.0	34.3
Health and Environmental Quality	1,177,121	(914,863)	262,258	256,114	77.7	75.9
Higher Education	647,572	(1,518)	646,054	702,896	0.2	0.2
Employment and Family Services	352,082	(311,314)	40,768	53,013	88.4	83.6
Natural Resources	119,528	(80,760)	38,768	41,226	67.6	63.9
Community and Economic Development	90,794	(39,549)	51,245	45,771	43.6	49.7
Business, Labor, and Agriculture	66,965	(57,680)	9,285	12,695	86.1	80.8
Public Education	1,981,119	(333,596)	1,647,523	1,750,928	16.8	12.4
Transportation	555,840	(356,586)	199,254	161,336	64.2	70.2
Interest on Long-term Debt	73,835	—	73,835	68,964		
Total Governmental Activities	\$ 6,215,797	\$ (2,630,670)	\$ 3,585,127	\$ 3,768,418	42.3 %	39.0 %

Business-type Activities

Despite the slow economy, revenues from the State's business-type activities remained relatively even, decreasing \$26.4 million or 5.1 percent from the prior year. This decrease is partially attributable to a one-time \$62.6 million distribution from the federal government to the Unemployment Compensation Fund that bolstered revenues in fiscal year 2002. This decrease in one-time revenue was partially offset by an increase in Unemployment Compensation collections from employers of 27.8 percent as higher claims resulted in increased employer taxes. Net assets for the combined business-type activities decreased \$61.1 million or 3.9 percent as higher expenses in the Unemployment Compensation program offset gains in net assets in the other activities.

All of the State's business-type activities operate from program revenues except for the Water Loan Programs and the Agriculture Loan Fund which by law receive dedicated sales taxes to provide additional capital for loans. Accounting standards require unemployment taxes that are collected from employers and deposited in the Unemployment Compensation Fund be reported as charges for services rather than taxes. Therefore, taxes in the business-type activities are comprised entirely of sales taxes in the water and agriculture loan programs.

FINANCIAL ANALYSIS OF THE STATE'S GOVERNMENTAL FUNDS

Fund Balances

At June 30, 2003, the State's governmental funds reported combined ending fund balances of \$1.9 billion. Of this amount, \$1.1 billion, or 58.1 percent is reserved for specific programs by state law, by external constraints, or by contractual obligations. Unspent bond proceeds, balances of restricted accounts, and agencies' nonlapsing balances are included in reserved fund balance. An additional \$466.2 million or 24.4 percent of total fund balances has been designated through internally imposed limitations on uses of certain funds. Note 11 on page 86 contains more details about reserved and designated fund balances at June 30, 2003. The remaining \$335 million or 17.5 percent of fund balance is available for appropriation for the general purposes of the funds.

State of Utah
Governmental Fund Balances as of June 30, 2003
(Expressed in Thousands)

	General Fund	Uniform School Fund	Transpor- tation Fund	Centennial Highway Fund	Trust Lands Fund	Nonmajor Funds	Total
Reserved	\$ 230,980	\$ 54,950	\$ 93,848	\$ 109,266	\$ 404,991	\$ 215,548	\$ 1,109,583
Unreserved Designated	156,016	187,165	40,429	—	—	82,596	466,206
Unreserved Undesignated	—	1,802	80,602	210,968	—	41,639	335,011
Total	\$ 386,996	\$ 243,917	\$ 214,879	\$ 320,234	\$ 404,991	\$ 339,783	\$ 1,910,800
Percent change from prior year	5.2 %	33.9 %	64.1 %	4.9 %	12.4 %	(23.0)%	6.9 %

General Fund

During fiscal year 2003, the General Fund's total fund balance increased \$19 million or 5.2 percent. This increase was due in large part to an unbudgeted federal appropriation for jobs and growth relief of \$38 million received in the latter part of the fiscal year. The General Fund ended fiscal year 2003 with a "surplus" from unreserved and undesignated sources of \$27.7 million. However, \$14.3 million of federal jobs and growth relief funds were carried forward for appropriation in 2004 and included in designated fund balance. Of the remaining \$13.4 million, half was transferred by law to the Budget Reserve Account ("Rainy Day Fund") and included in designated fund balance, and half was carried forward by law for other purposes as designated for specific appropriation in 2004. As a result, the General Fund ended the year with zero unreserved/undesignated fund balance. Miscellaneous changes resulting from other designated and reserved sources account for the remaining change in fund balance. The Budget Reserve Account ended fiscal year 2003 with a balance of \$26.5 million.

Total General Fund revenues increased \$218.6 million or 6.6 percent from the prior year. Total tax collections increased \$25 million or 1.6 percent. The major changes in tax revenues were in sales tax, which inched up \$9.9 million or 0.7 percent as stagnation in the economy continued; inheritance tax, which increased \$23.6 million or 249.9 percent; and cigarette, tobacco, and beer taxes which together fell \$5.7 million or 9.6 percent from the prior year. Also, historically low interest rates and lower cash balances kept investment income \$7.1 million or 46.1 percent below last year's level. Federal funding was the largest single factor in increasing revenues for the fiscal year as federal contracts and grants climbed \$183.8 million or 13.7 percent from the prior year driven by demand for services, and as stated above, the receipt of federal jobs and growth relief money.

Total General Fund expenditures increased by \$107.0 million or 3.1 percent as the continued sluggish economy and higher unemployment increased the public's demand for government services which more than offset budget reductions in many agencies. The following areas were impacted most:

- *Health and Environmental Quality.* Total expenditures in this category jumped \$116 million, primarily due to increased Medicaid program costs resulting from increased caseloads and pharmaceutical costs.
- *Employment and Family Services.* Total expenditures in this category were up \$41.8 million as Temporary Assistance for Needy Families and Food Stamp program costs increased 16.0 and 26.3 percent, respectively.

Expenditures in *Natural Resources* also increased for fighting wildfires, and spending from capital development funds for projects such as building fish hatcheries and wildlife management facilities. The most notable reduction in spending from the prior year occurred in *Public Safety*, where expenditures (and corresponding federal revenues) were down approximately \$25 million because prior year activities related to the Olympic Winter Games ended in fiscal year 2002.

Budgetary Highlights – General Fund

The Legislature adopted the initial fiscal year 2003 budget in their 2002 General Session and met again in a special session beginning in June 2002 to rebalance the budget in light of lowered revenue estimates. After these actions, the original General Fund budget at the start of fiscal year 2003, excluding department specific revenue sources such as federal grants and departmental collections, was 2.8 percent lower than the final fiscal year 2002 budget. The Legislature also had to address critical and mandated program increases, such as projected increases in caseloads and inflation for the Medicaid program. In order to balance the original General Fund budget, the Legislature used a variety of measures including:

- Reducing budgets across all state agencies.
- Reducing appropriations to the Centennial Highway Fund for highway construction projects by \$66.4 million.
- Transferring \$17.8 million to the General Fund from the Tobacco Endowment Fund.
- Obtaining \$14 million from other accounts, including \$10.8 million from the Centennial Highway Fund from project savings.
- Redirecting \$10 million of dedicated sales tax revenue from water loan programs to the General Fund.

The Legislature met in a special session in December 2002 to address lowered revenue estimates. The budget was again addressed in the 2003 General Session of the Legislature (January to March 2003). In order to balance the final budget, the Legislature took additional action that included:

- Reducing agency budgets.
- Transferring an additional \$26.6 million from the Tobacco Endowment Fund to the General Fund.
- Authorizing bonding of \$35 million to replace cash originally appropriated for capital projects.
- Reducing General Fund appropriations to the Centennial Highway Fund by an additional \$20 million.
- Redirecting an additional \$2 million of dedicated sales tax revenue from water loan programs to the General Fund.

Additionally, in the face of expected revenue shortfalls in the latter part of the fiscal year, agencies were able to curb spending through active budget management. This action resulted in agencies lapsing \$6.4 million of unspent budgeted dollars back to the General Fund. Although taxes and other unrestricted revenues ended the year slightly below the final budgeted amounts, the state ended the fiscal year with a slight surplus due to the receipt of unbudgeted federal jobs growth and fiscal relief money. Final budgets for many of the department specific revenue sources such as federal grants are revised based on actual collections.

Uniform School Fund

The Uniform School Fund's fund balance increased \$61.7 million or 33.9 percent from the prior year. While individual income taxes remained relatively unchanged compared to the prior year, corporate income taxes increased \$36.6 million or 29.4 percent. Federal funding increased by \$34.7 million or 13.7 percent. Expenditures for public education decreased slightly by \$18.8 million or 0.9 percent, as budget reductions were not entirely offset by increased per student funding approved by the Legislature for fiscal year 2003. The Uniform School Fund ended the year with unreserved fund balance of \$2.4 million. Of that amount, \$600 thousand was transferred by law to the Education Budget Reserve Account, a new account established by the Legislature in 2003. This resulted in a final unreserved and undesignated fund balance of \$1.8 million.

Transportation Fund

Fund balance in the Transportation Fund increased \$83.9 million or 64.1 percent from the prior year. This increase was the result of \$52 million of unspent bond proceeds and a reduction in overall expenditures greater than a reduction of revenues. Total revenues decreased by \$25.1 million or 3.6 percent. Motor and special fuels taxes and fees remained relatively flat over prior year levels; however, federal funds decreased \$27.1 million or 11.4 percent.

In comparison, total expenditures decreased \$89.9 million or 14 percent, primarily in construction expenditures. Authorized federal funding remains relatively stable from year to year. However, the spending of state and federal revenue reflects the timing of highway construction projects, which is impacted by a variety of circumstances such as environmental studies or weather.

As authorized by the Legislature, during the year the State issued \$52 million of general obligation debt to provide funding to accelerate the completion of specific State transportation projects in Salt Lake County. At June 30, 2003, the Transportation Fund had not spent any of the bond proceeds, which amount is reported as reserved fund balance. Salt Lake County is obligated to pay the debt service on these bonds from dedicated county sales tax.

Centennial Highway Fund

Fund balances in the Centennial Highway Fund increased by \$14.9 million, or 4.9 percent from the prior year. Revenues and expenditures in the fund remained relatively flat as compared to the prior year. Still, the Department of Transportation continued to work on several major highway projects using carry over funding from the General Fund and bond proceeds.

Due to budget constraints, the Legislature reduced General Fund transfers to the Centennial Highway Fund by \$86.4 million and transferred \$10.8 million of savings from the I-15 reconstruction project back to the General Fund. As a result, the State incurred an additional \$109.3 million of general obligation debt to provide for highway construction needs. At June 30, 2003, all of the bond proceeds were unspent and included in reserved fund balance.

Trust Lands Fund

The fund balance of the Trust Lands Fund increased by \$44.6 million, or 12.4 percent, due to revenues generated from land use, sales of trust lands, and investment income. The permanent fund also generated \$8.4 million of cash investment earnings for the Uniform School Fund that is earmarked for distribution to local school districts.

Nonmajor Governmental Funds

During the year, the Legislature transferred \$44.4 million from the Tobacco Endowment Fund to the General Fund in order to help balance the Fiscal Year 2003 budget.

FINANCIAL ANALYSIS OF THE STATE'S PROPRIETARY FUNDS**Student Assistance Programs**

The Student Assistance programs finished the year with an increase of \$8.0 million or 4.0 percent in net assets. Rising enrollments at the State's colleges and universities created more demand for student loans than in prior years.

Unemployment Compensation Fund

The State's continued high unemployment rate spurred by the state and national economic slowdown resulted in a 12.8 percent increase in benefit payments over the prior year. Assets were sufficient to handle the increased demand for benefits, but net assets decreased \$109.8 million, or 19.8 percent, to \$444 million as benefit payments exceeded employer taxes and other revenues. Rising benefit payments will result in increased employer contributions, though the full effect of the increase will not be realized until future periods.

Water Loan Programs

To help balance the budget in fiscal year 2003, the Legislature redirected to the General Fund \$12 million of sales tax that was normally earmarked for water loans. The Legislature to date has not redirected any additional sales tax earmarked for water loans for fiscal year 2004. These programs have sufficient revenues and net assets to cover current commitments.

CAPITAL ASSET AND LONG-TERM DEBT ADMINISTRATION**Capital Assets**

The State's capital assets increased a net \$386.2 million during the year. The change consisted of net increases in infrastructure (highways) of \$158.9 million; land and related assets of \$66.7 million; and buildings, improvements and construction in progress of \$176.4 million. Machinery and equipment decreased a net \$15.8 million during the year. Many buildings financed by the State are actually owned by the colleges and universities which are component units of the State. Therefore, while the capital assets are on the component unit's financial statements, any outstanding debt issued by the State to finance construction of those assets is reported as a liability of the State's governmental activities. This in turn reduces unrestricted net assets. As of June 30, 2003, the State had \$69.6 million of outstanding debt related to capital assets of component units.

The State has adopted an allowable alternative to reporting depreciation for roads and bridges (infrastructure assets) maintained by the Utah Department of Transportation (UDOT). Under this alternative method, referred to as the "modified approach," UDOT must maintain an asset management system and demonstrate that the infrastructure is being preserved at or above established condition levels. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

The State's established condition level for roads is to maintain 50 percent with a rating of "fair" or better and no more than 15 percent with a "very poor" rating. The most recent condition assessment, completed for calendar year 2002, indicated that 73.0 percent of the roads were in "fair" or better condition. Only 6.6 percent of the roads assessed were in "very poor" condition. These results reflect improvement over calendar year 2001, when 70.4 percent of the roads were assessed as "fair" or better, and 8.3 percent assessed were in "very poor" condition.

The State's established condition level for bridges is to maintain 50 percent with a rating of "good" and no more than 15 percent of bridges with a "poor" rating. The most recent condition assessment, completed in April 2003, indicated that 70.0 percent and 3.0 percent of bridges were in "good" and "poor" condition, respectively. These results reflect a very slight decline over the prior year, when 70.4 percent of the bridges were assessed as "good," and 2.8 percent assessed were in "poor" condition.

During fiscal year 2003, the State spent \$264.3 million to maintain and preserve roads and bridges. This amount is 2.7 percent below the estimated amount of \$272 million needed to maintain these assets at established condition levels. During the last few fiscal years the State was aggressive in the maintenance and preservation of many of the State's roads in preparation for the Winter Olympic Games. The State anticipates that expenditures in future years will be more comparable to the estimated amounts needed to preserve the State's infrastructure assets.

More information about capital assets is included in Note 8 on page 73, and more detailed information on the State's modified approach for reporting infrastructure is presented in the Required Supplementary Information on page 106.

Long-term Debt

The *Constitution of Utah* authorizes general obligation borrowing only as approved by the Legislature. The *Constitution* also limits outstanding state general obligation debt to 1.5 percent of the fair market value of all taxable property in the State, while state law further restricts outstanding state general obligation debt to no more than 20 percent of the appropriations limit. As of June 30, 2003, the State was \$136.4 million below the statutory debt limit and \$848 million below the debt limit established in the *Constitution*. Revenue bonds are not backed by the general taxing authority of the State, but are payable solely from specific fees or loan repayments as pledged in the bond indentures.

State of Utah
Outstanding Bonded Debt as of June 30
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2003	2002	2003	2002	2003	2002	2002 to 2003
General Obligation Bonds	\$ 1,713.8	\$ 1,498.4	\$ —	\$ —	\$ 1,713.8	\$ 1,498.4	14.4 %
Revenue Bonds:							
State Building Ownership Auth.	334.9	346.0	22.6	23.1	357.5	369.1	(3.1)
Student Assistance Programs	—	—	1,311.0	1,227.4	1,311.0	1,227.4	6.8
Water Loan Programs	—	—	2.6	4.1	2.6	4.1	(36.6)
Total Bonds Payable	<u>\$ 2,048.7</u>	<u>\$ 1,844.4</u>	<u>\$ 1,336.2</u>	<u>\$ 1,254.6</u>	<u>\$ 3,384.9</u>	<u>\$ 3,099.0</u>	9.2 %

The State issued \$660.5 million of general obligation bonds during the fiscal year. Of the general obligation bonds issued, \$140.7 million was for highway construction; \$138 million was for capital facility construction; \$253.1 million was to refinance prior debt to take advantage of lower interest rates through an advance refunding; and \$128.7 million was to refund variable rate highway notes with fixed-rate debt to lock in favorable long-term fixed interest rates. The State issued a total of \$119.8 million of revenue bonds, all to provide capital for purchasing student loans in the Student Assistance programs.

The State's active management of recent economic difficulties has helped the State maintain its triple-A rating on general obligation bonds, the highest possible rating, and double-A rating on State Building Ownership Authority lease revenue bonds from all three national rating agencies. These ratings save millions of dollars in interest each year because the State is able to obtain very favorable interest rates on new debt. Note 10 on page 77 contains more information about the State's outstanding debt.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

Original general revenue estimates for the General Fund and Uniform School Fund for fiscal year 2004 were approximately 1.4 percent above actual revenues for fiscal year 2003. The Legislature balanced the budget by using anticipated 2003 carry over funds, eliminating certain sales tax exemptions as described below, implementing additional program reductions, transferring funds from the tobacco settlement and other restricted accounts as allowed by law, and utilizing other miscellaneous sources. Those adjustments also made funding available for increases in Medicaid, public education and higher education, and increased costs of benefits for State and higher education employees.

The Legislature in its 2003 General Session eliminated the sales tax exemption for multi-channel video or audio service. This action is expected to yield \$14 million per year for the General Fund. The Legislature also enacted a bill that imposes a tax on hazardous waste facilities, nonhazardous solid waste facilities, and radioactive waste facilities and eliminates a tax on radioactive waste. These tax changes are expected to generate an additional \$2.2 million per year in revenues.

Revenue collections to date in fiscal year 2004 are in line with original estimates.

Utah's economy is expected to remain stable or only moderately improve in the near future. The average unemployment rate is expected to decline in 2003 to 5.7 percent, down from an average 2002 rate of 6.1 percent. Taxable retail sales are expected to increase 1.5 percent by the end of 2003, and growth in personal income is expected to be 2.4 percent for the same period. Because these indicators are measured on a calendar-year basis, the impact on the State budget will not be fully realized until well into fiscal year 2004.

CONTACTING THE STATE'S DIVISION OF FINANCE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Division of Finance, Financial Reporting Section at (801) 538-3082 or visit our website at: www.finance.utah.gov.

The preceding discussion and analysis focuses on the State's primary government operations. With the exception of a few nonmajor component units, the State's component units each issue separate audited financial statements which include their respective management's discussion and analysis. Component unit statements may be obtained from their respective administrative offices or from the Utah State Auditor's Office, 211 State Capitol, Salt Lake City, UT 84114.